

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Bay State Gas Company	)	D.T.E. 02-60
Residential Conservation Service	)	
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**OFFER OF SETTLEMENT**

This Offer of Settlement ("Settlement") is entered into this 19<sup>th</sup> day of December, 2002, by and between Bay State Gas Company ("Bay State" or the "Company"), the Commonwealth of Massachusetts, Office of Consumer Affairs and Business Regulation, Division of Energy Resources ("DOER"), for the purpose of resolving all issues raised in connection with the above-captioned proceeding. Bay State and DOER are collectively referred to herein as the "Settling Parties." Pursuant to 220 C.M.R. § 1.10(8), the Settling Parties stipulate the following:

1. On October 31, 2002 pursuant to G.L. c. 164 App., Sections 2-1 through 2-10 and 220 C.M.R. §§ 7.00 et seq. Seq., Bay State filed with the Department a petition for approval by the Department of the Company's proposed operating budget of \$516,405 and applicable monthly surcharge of \$0.09 per monthly bill for the residential energy conservation service ("RCS") for calendar year 2003.

2. Pursuant to G.L. c. 164 App., Sections 2-1 through 2-10, DOER must adopt a state plan and promulgate regulations necessary to implement that plan. DOER is responsible for: (a) establishing residential energy and conservation goals; (b) establishing RCS program guidelines; (c)

monitoring the implementation of the program requirements; and (d) overseeing the implementation of the state plan by approving a utility coalition action plan (“CAP”).

3. DOER has received and reviewed Bay State’s calendar year 2003 budget filing and finds that Bay State’s proposed budget is adequate to support the activities as outlined in the filing.

4. Bay State’s RCS budget filing complies with the requirements established in G.L. c. 164 App., Sections 2-1 through 2-10; C.M.R. §§ 7.00 et seq.

5. Bay State’s estimated calendar year 2002 expenses, based on 9 months of actual expense and three months of estimated expense, were \$371,185, which is \$183,889 less than the Company’s approved calendar year 2002 budget of \$555,074 (Exh. BGC-1, Exhibits 3A & 3C). A comparison of actual versus projected budget line items is included in Exh. BGC-1, Exhibit 2A. The Settling parties agree that the Company’s twelve-month expenditures for calendar year 2002 are reasonable and recoverable from Bay State’s customers.

6. Bay State’s actual expenses for the first nine months of calendar year 2002, were \$225,956 against actual nine month revenues of \$348,435 (Exh. BGC-1, Exhibit 3A). The Company submits that its expenditures of \$225,956 for this nine-month period are reasonable and therefore recoverable from customers. The Settling Parties agree that the Department will review the Company’s actual expenditures for the final three months of calendar year 2002 in the next budget review.

7. Bay State’s actual RCS expenses for the final three months of calendar year 2001 were \$73,347. Bay State’s final actual total RCS expense for calendar year 2001 was \$417,535. Exhibit BGC-1, Exhibit 3C.

8. Bay State’s calendar year 2003 RCS program budget is \$516,405 (Exh. BGC-1, Exhibit 3A). The budget proposed by Bay State is comparable to the budget approved by the DOER

and the Department for the calendar year 2002 period. The Settling Parties agree that the line item budget expenditures proposed by the Company to meet its calendar year 2003 goals are reasonable.

9. The documentation which Bay State has provided to reconcile under collections and over collections from prior fiscal years is complete and accurate.

10. The effect of these reconciling items is an over collection of \$97,392 for calendar year 2002, and an over collection of \$108,661 for prior fiscal years (Exh. BGC-1, Exhibit 3A). Adjusting the budget amount by these over collections results in a net amount to be collected in calendar year 2003 of \$310,351 (id.).

11. Bay State calculated its RCS surcharge by dividing the total number of bills expected to be rendered during calendar year 2003 by the net amount to be collected to support RCS services (Exh. BGC-1, Exhibit 3A). The RCS surcharge shall be \$0.09 per bill per month (Exh. BGC-1, Exhibit 3A). This surcharge is \$.05 lower than the surcharge approved by the Department in Bay State Gas Company, D.T.E. 01-85 (2001) for calendar year 2002.

12. Bay State's proposed calendar year 2003 RCS program budget, budget reconciliations, and proposed calendar year 2003 surcharge are reasonable.

13. The Settling Parties acknowledge that they have worked cooperatively from 1999 through the present to re-design the RCS program. The Settling Parties agree to continue such cooperative RCS redesign efforts in 2003.

14. The Settling Parties have reviewed and discussed the DOER CY 2003 RCS Goals Letter dated October 21, 2002 ("Goals Letter"). The Company commits to working in 2003 to achieve the outcomes set forth in the Goals Letter with the following clarifications and adjustments:

Goal #1: Increase Implementation: In 2002, the Company did not have a specific RCS goal for a percentage of home energy assessments (“HEAs”) having at least one major measure installed. The Company will seek to collect data with respect to the actual percentage of HEAs that resulted in the installation of one major measure in CY 2002 and will seek to increase the percentage of HEAs that result in at least one major measure being installed for CY 2003. The Company will use the number of HEAs in 2002 and 2003 as a basis to establish a goal for CY 2004. The Settling Parties agree that, as a result of long running energy efficiency programs, and other market conditions, the demand for certain major energy efficiency measures is, or may be, impacted and such impacts should be recognized in establishing appropriate goals. Additionally, the Settling Parties agree that the Company shall also be allowed to assign all savings and expenditures related to major measures funded or made available through the Company’s already established and approved energy efficiency (DSM) programs to such energy efficiency (DSM) programs for purposes of savings calculations, budgets, conservation charge decimal calculations and all other related purposes.

Goal #2: One Stop Shopping. The Company will seek to achieve the outcome as stated in the Goals Letter.

Goal #3: Create a Competitive Market for Energy Efficiency and Renewable Energy Services and Products. This goal will be actively discussed in 2003 RCS Network discussions among the DOER and the Company. During these discussions, the Company will be able to advance suggestions and note concerns to DOER for consideration and inclusion in a draft memorandum written by DOER for consideration by the LDCs concerning recommended program changes designed to potentially create a more competitive market for energy efficiency and renewable energy services and products. After the DOER has completed and circulated the guidance memorandum referenced in the Goals Letter, the LDCs and DOER will work in

good faith to develop a consensus-based program administrator memorandum that, if feasible, identifies potential program changes designed with the intent to help increase competition and the process to implement those changes. The Settling Parties acknowledge that the Company cannot warrant in advance that a specific plan agreed to by all program administrators will be developed.

Additionally, as set forth in the Goals Letter, the Company will work with DOER to achieve program evaluation goals for 2003 set forth in the Goals Letter. Lastly, the Company plans to discuss with DOER the possible establishment of performance metrics and implementation of an RCS performance incentive for effect in 2004. If a consensus is reached between the Company and DOER on a performance incentive mechanism for 2004, such incentive proposal would be submitted as part of the Company's calendar year 2004 RCS filing to the Department of Telecommunications and Energy.

15. The making of this Settlement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid. The scope of contracted services for CY 2003 will be consistent with RCS regulations, guidelines, and the Coalition Action Plan (CAP).

16. This Settlement is expressly conditioned upon the Department's acceptance of all of its provisions, without change or condition on or before December 31, 2002 and if the Department does not accept it in its entirety, without change or condition, the Settlement shall be deemed to be null and void and without effect, and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

17. The Department's acceptance of this Settlement does not constitute continuing approval of, or precedent regarding any particular issue in this proceeding, but such acceptance does constitute a determination that, as the Settling Parties believe, the provisions set forth herein are just and reasonable.

18. The discussions which have produced this Settlement have been conducted with the understanding that all offers of settlement and discussion relating thereto are and shall be privileged and shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding, or any further proceeding, or otherwise.

Wherefore, the Settling Parties agree to jointly petition the Department to approve this Offer of Settlement by submitting a Joint Motion for Approval of Offer of Settlement in accordance with 220 C.M.R. § 1.10(8), and by their attorney and /or principals do hereunto affix their names.

BAY STATE GAS COMPANY

By its attorney,

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Maribeth Ladd  
Rubin and Rudman LLP  
50 Rowes Wharf  
Boston, MA 02110

DIVISION OF ENERGY  
RESOURCES

By its attorney,

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Steven I. Venezia, Esq.  
Deputy General Counsel  
70 Franklin Street, 7<sup>th</sup> floor  
Boston, MA 02110-1313

December 19, 2002